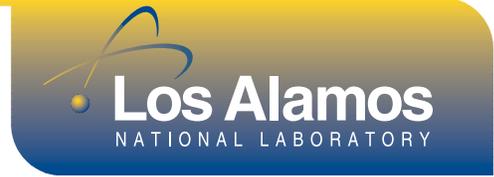


Business Process Improvements



Congress, the Nuclear National Security Administration, the Department of Energy Office of the Inspector General, the University of California and other external organizations raised issue with various Los Alamos National Laboratory business practices over the course of fiscal year 2003. When these issues were raised, Los Alamos, in concert with the University of California's Office of the President, performed rigorous, comprehensive self-assessments and chartered a number of independent reviews to assess potential risks and vulnerabilities that might exist within laboratory business processes.

These independent reviews, coupled with the many self assessments and external reviews of laboratory business practices, have led to the development of an integrated corrective action plan that has been aggressively implemented and tracked by UC and Los Alamos senior management. Here are some of the highlights of business process improvements at the laboratory in 2003.

Reorganization to enhance accountability and control

The Los Alamos National Laboratory Business Operations Division was split into two separate divisions: the Chief Financial Officer Division, which manages the laboratory accounting and budgetary functional areas; and the Supply Chain Management Division, which manages the laboratory's procurement, property and material management functional areas. This fundamental organizational change was deemed critical by UC to ensure that an appro-

priate level of senior management attention was being directed to the implementation of those corrective actions considered essential if all of the laboratory's business processes were to be effective, efficient and consistent in their implementation.

Los Alamos demonstrates excellent property stewardship

At the beginning of 2003, the laboratory began its wall-to-wall inventory of the more than \$1 billion of property — more than 79,000 items ranging from palm-

sized personal data assistants to room-sized scientific gadgets. When completed in the fall of 2003, the inventory had located 99.66 percent of laboratory property (property physically touched and catalogued; existence verified through affidavit in some cases of offsite property), an achievement that merited an "excellent" rating for property management from the National Nuclear Security Administration.

A rigorous, independent validation of property inventory

As an additional check on its wall-to-wall inventory, Los Alamos requested that PriceWaterhouseCoopers — an outside, independent company — validate inventory findings. The laboratory set a validation confidence criterion of 99 percent, meaning that no more than one percent of a random sample of the more than 79,000 items inventoried could have irregularities when validation teams checked the items. This validation criterion is higher than typical industry standards of 95 to 98 percent.

Validation teams randomly selected 1,075 items for confirmation and found only four irregularities: two items that had been properly reported as lost or stolen by the property custodian during the period between the inventory and the validation, and two items that were not certified because of irregularities in serial number or model number designations in the property inventory database. The four irregularities translate to a 99.63 percent validation confidence level, surpassing the laboratory's already rigorous confidence criterion. The PWC validation also supported NNSA's own validation of the inventory and underscored that laboratory employees are excellent property stewards.

Enhanced purchase control and accountability

UC, Ernst & Young, the DOE-IG and others reviewed the laboratory's expedited procurement methods: the pur-



Not only was the Laboratory able to account for an excellent percentage of property on its current property rolls, as the Laboratory proceeded with its 2003 wall-to-wall inventory, inventory specialists also located hundreds of items that previously were listed as "missing," including the two-ton magnet shown here.

chase card program; Just-In-Time subcontracts and processes; and Local Vendor Agreements. Los Alamos also performed its own independently validated review of these procurement methods. These thorough evaluations allowed the laboratory to make a number of improvements that addressed weaknesses or potential vulnerabilities in procurement processes.

The purchase card program has been thoroughly evaluated and numerous control and accountability improvements have been added, including:

- 100 percent review of all purchase card transactions by purchase card specialists
- Reduction in the number of purchase cards by 33 percent
- Significant reductions in spending limits for each cardholder
- Required senior-management approval for all exceptions to spending limits or rules
- Thorough training of all cardholders and approving authorities
- Requirement of documentation of purchase justifications for all transactions
- Development and required use of a purchase card transaction archive.

Local Vendor Agreement processes for personal safety equipment were strengthened to require pre-approval of expenditures and as well as post-expenditure accountability documentation. LVAs for other goods and services were suspended in 2003 to allow the laboratory to develop improved control and accountability over this purchasing method. Laboratory business specialists met on several occasions with local vendors to determine ways to improve laboratory purchasing accountability without adversely affecting regional and

local businesses. New procedures will provide total accountability and control of purchases without affecting employee productivity and vendor accessibility.

Just-In-Time procurements have been suspended pending thorough review and enhancement of controls. During this moratorium period, all JIT catalogues are undergoing formal review to ensure that all items are consistent with laboratory operations and contract requirements and that controlled property items are positively identified as such in the catalogues. To date, nearly all of the catalogues have been reviewed. Improvements to JIT procurements also will require:

- Assignment of property numbers before controlled items can be released by the vendor
- Re-engineering of new desktop computer procedures that enhance internal JIT procurement safeguards
- Development of new JIT contract solicitation language and contract re-competition schedule

Small business advocacy and procurement improvement

As a leading economic force for the region, Los Alamos officials realize that business process improvement initiatives can potentially affect regional businesses who traditionally have capitalized on laboratory procurement activities and contractual agreements. To lessen the effects of changes to procurement and contracting policies and to help small businesses more effectively compete for business with the laboratory, three new committees were formed to create an institution-wide focus on procurement excellence with the intent of serving the best interests of the institution and regional businesses.

The Business Advisory Council has a membership of laboratory employees and community and business leaders who intend to strengthen business relationships and provide a credible forum for community feedback related to business and financial improvements.

The Consortium of Major Subcontractors serves as the principal venue for dialogue with community leaders on economic development needs. This committee leverages the expertise of 21 major laboratory subcontractor organizations with the intent of fostering optimal regional economic development.

The Senior Management Procurement Council has a membership of several laboratory division leaders who focus on acquisition objectives. This council takes a holistic approach to acquisitions, taking factors such as advanced acquisition planning, socioeconomic concerns and safety issues into account to arrive at procurement strategies that are in the best interests of the institution and the region.

Enterprise Project reorganization

Based on findings of laboratory internal assessments, Los Alamos refocused and reorganized the Enterprise Project — a business process and systems re-engineering strategy that will change the way the institution deals with financial issues, human resources, facilities management, project management and other key business functions. The University of California, NNSA-LASO and external steering committees helped oversee the reorganization and refocusing efforts, which were completed in January 2004. The first phase of Enterprise Project implementation is planned for September 2004. Los Alamos officials believe the reorganization and refocusing efforts will allow the laboratory to succeed in implementing a solid business system infrastructure for the future.



Los Alamos National Laboratory is operated by the University of California for the U.S. Department of Energy's National Nuclear Security Administration